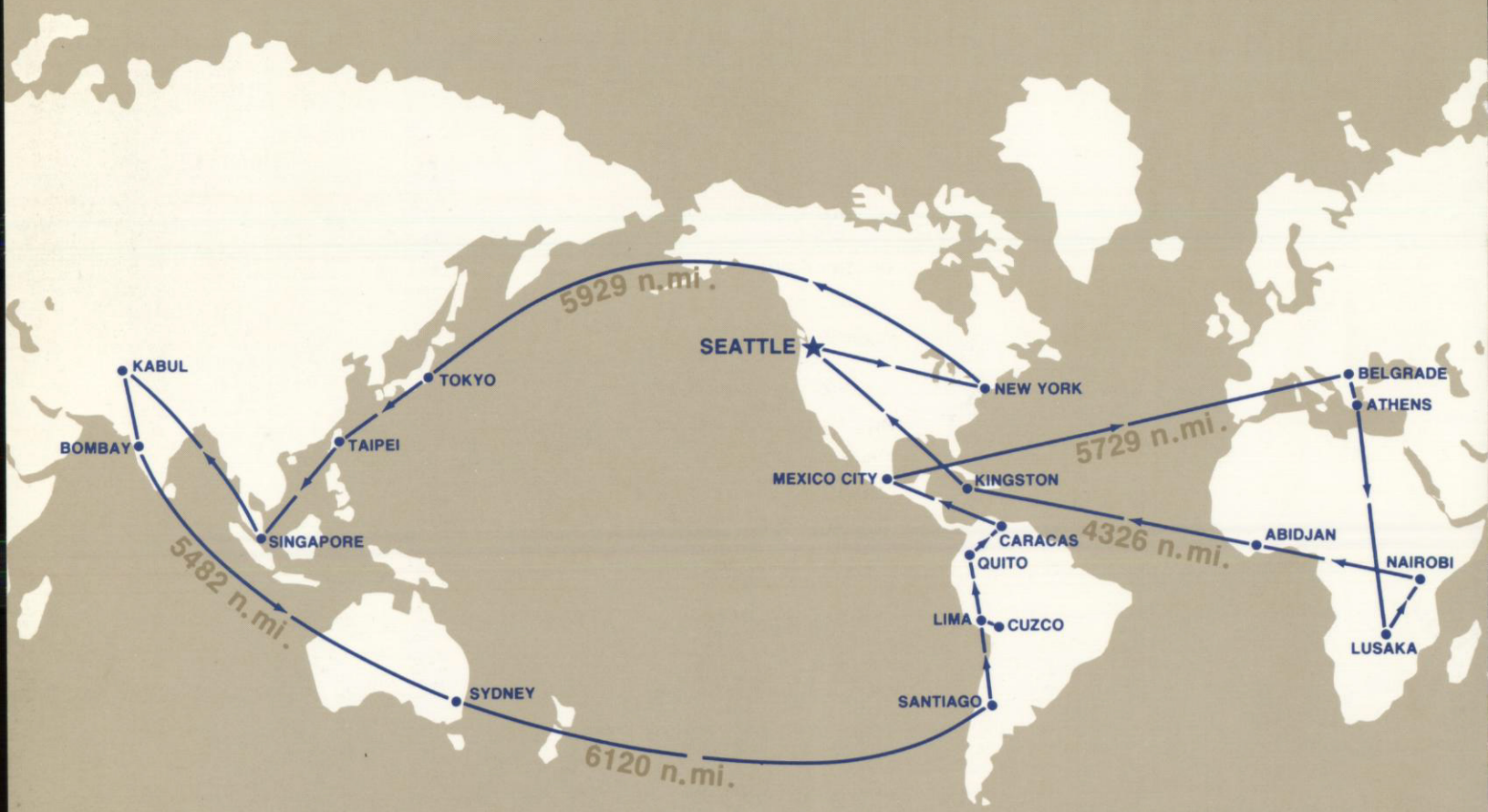
BOEING

ANNUAL REPORT · 1975



■ Map on cover and sketch above depict routes, ports of call and distances flown by the 747SP, company's newest jet transport, during month-long demonstration flight. Covering more than 70,000 miles, the SP visited 18 cities in 18 countries and demonstrated its outstanding performance to 26 airlines.

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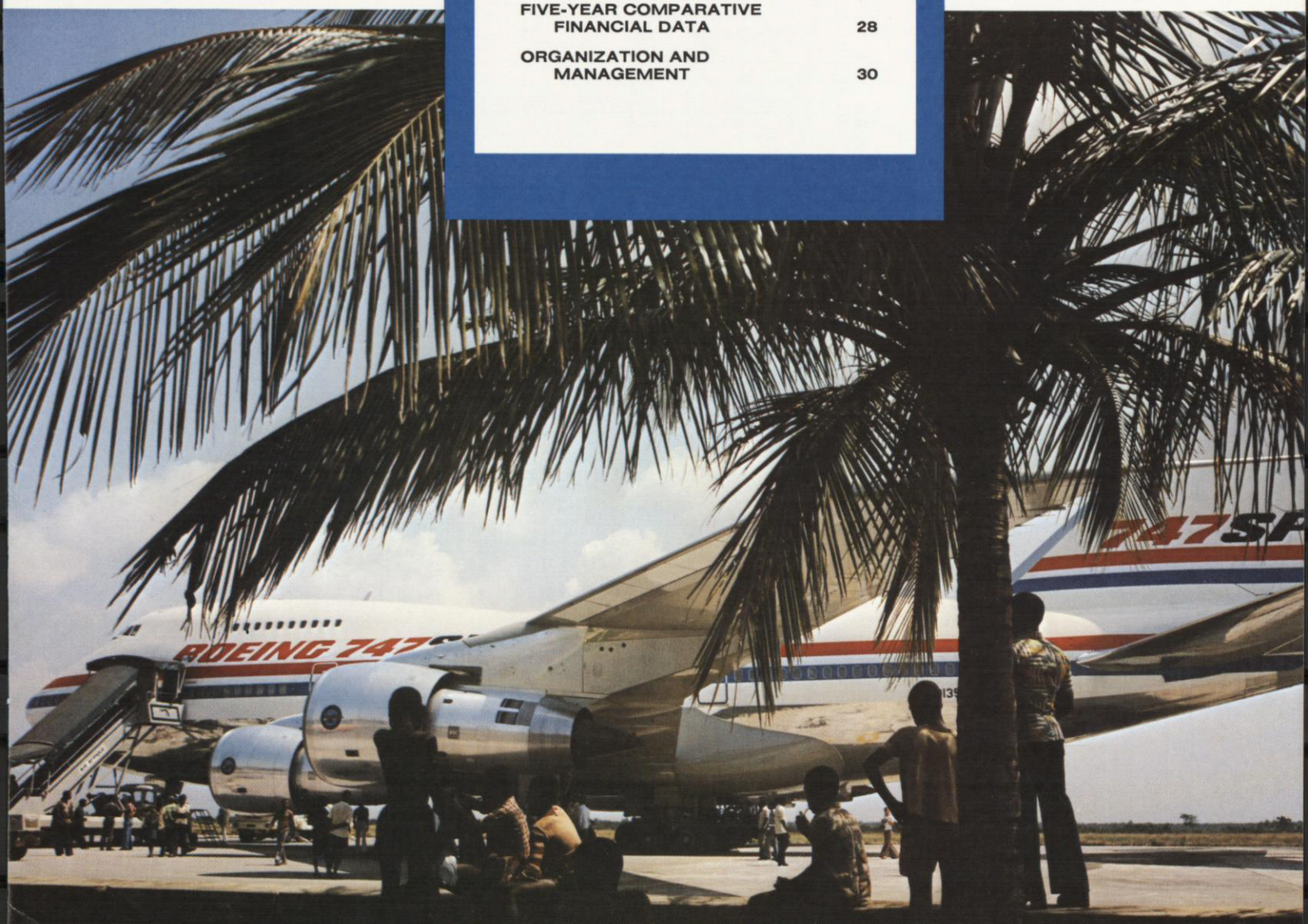
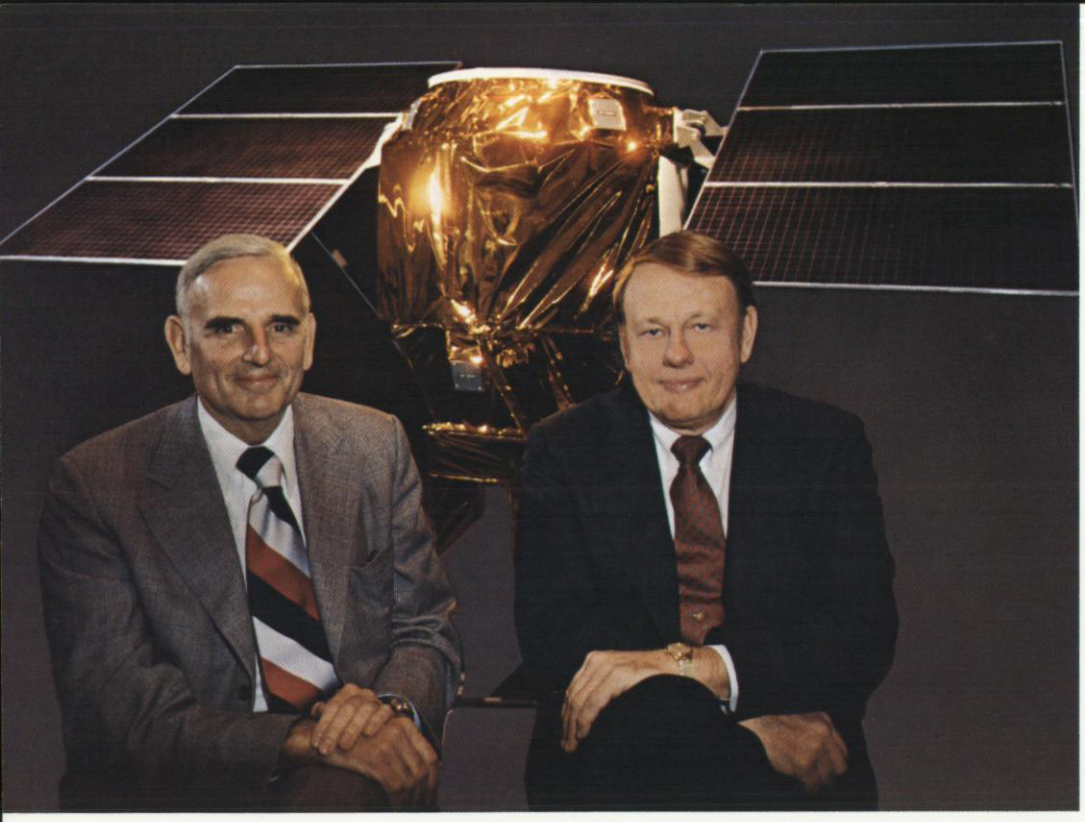


■ Annual meeting of Boeing stockholders will be held at the offices of the Company, Seattle, Washington on May 3, 1976. Formal notice of the meeting, proxy statement and form of proxy will be sent to stockholders about April 1.



■ Board Chairman T. A. Wilson (left) and President Malcolm Stamper with mockup of orbital space module for NASA. Two modules will be built: one to collect earth data through heat measurement; the other to investigate stratospheric aerosols and ozone.

MESSAGE TO STOCKHOLDERS

Last year we noted in the annual report that the company was faced with a projected downturn in commercial aircraft markets, the prospect of limitations in defense spending, and higher costs of doing business across the board. As you no doubt are aware, most of these negative factors materialized during 1975 but their impact was substantially offset by the company's ability to retain and, in some instances, increase its share of the available jet transport and government business. A milestone was reached during the year when stockholders' equity reached a level of more than a billion dollars.

Sales of $3,719 million in 1975 were slightly below the record sales of $3,731 million in 1974, and backlog stood at $3,729 million at December 31, 1975 compared with $3,824 million at year-end 1974. However, earnings increased from $72.4 million in 1974 to $76.3 million in 1975, raising earnings per share from $3.42 to $3.60. These improved earnings were primarily achieved through continued favorable performance on major programs.

In recognition of the level of earnings being achieved by the company and the continued improvement in the company's overall financial position, a special 20 cents per share dividend in addition to the regular quarterly dividend of 20 cents was paid in the fourth quarter of 1975. It brought the total per share dividend to $1.00 for the year. The quarterly dividend rate was raised to 25 cents per share beginning with the first quarter of 1976.

The reduction in backlog noted above is primarily attributable to a decline in orders for new jet transports. During 1975 our customers announced new orders for 114 Boeing commercial airliners compared with 188 in 1974. Despite this decline in units, the new orders represented more than half of the worldwide market realized during 1975. The value of these new airplane orders was $1.4 billion in 1975 compared with $2 billion in 1974.

Our new funded orders from the Department of Defense were $1.3 billion in 1975 compared with $1.2 billion in 1974. The portion of the defense market available to the aerospace industry rose from $12.6 billion in 1974 to about $13.3 billion in 1975. However, with defense procurement declining as a percentage of the total federal budget and inflation eroding even that purchasing power, the defense market available to us is at best holding its own.

We believe we will be able to retain these market shares in 1976. Although military procurement is subject to many variables, we have a good base of ongoing programs such as Minuteman and AWACS, and opportunities in a number of competitions for major defense procurements. In the commercial field

HIGHLIGHTS

	1975	1974
Sales	$3,718,853,000	$3,730,667,000
Net earnings	$ 76,347,000	$ 72,432,000
Per average share outstanding	$3.60	$3.42
Per cent of sales	2.05%	1.94%
Stockholders' equity	$1,010,093,000	$ 954,967,000
Shares outstanding at year end	21,197,716	21,171,488
Stockholders' equity per share	$47.65	$45.11
Cash dividends paid	$ 21,191,000	$ 15,898,000
Per share	$1.00	$ .75
Salaries and wages	$1,222,364,000	$1,098,985,000
Average number of employees	72,600	74,400
Additions to plant, net	$ 70,843,000	$ 84,129,000
Depreciation of plant	$ 67,197,000	$ 64,478,000
Funded backlog at year end	$3,728,755,000	$3,824,444,000

our confidence rests on our broad customer base, the established performance and productivity of our jet transports, and our ability to provide models which fit the wide-ranging requirements of the world's airlines.

Although the market for commercial jet transport sales appears relatively limited over the short term, the long-range prospects are favorable. Studies indicate that between now and 1985 there will be a commercial jet transport market of about $46 billion (in 1975 dollars), including some $19 billion for replacement aircraft.

In the short term, however, uneven world-wide traffic growth and continued high fuel costs plus regulatory uncertainties have caused a number of airlines to defer new equipment purchases.

Our studies indicate that the next generation of commercial aircraft can provide lower operating costs and improved noise levels. Such technological advances are evolutionary in nature. Progress is being made on improved structure, quieter engines, more efficient aerodynamics and more advanced flight control systems. Our major objective is to incorporate these improvements into a new family of aircraft. We are making good progress toward this goal and when market conditions warrant we expect to be able to offer these new airplanes to the world airlines. This is the series designated 7X7. However, most airlines are not in a position to make major commitments for new aircraft models in the immediate future. Their near-term emphasis is on purchasing improved existing models to upgrade their fleets, or in some instances, to add additional capacity.

System improvements on the basic models continue to be programmed into production aircraft as they move through the factory. Derivative models, such as the 747 Special Performance aircraft, were developed to meet specific market requirements

where no other existing aircraft could provide the necessary performance. The SP is proving to be an excellent airplane which will demonstrate its value in service and substantially enhance the future of the 747 program.

U.S. government military sales are caught between conflicting forces. On the one hand, there is continued pressure to reduce military expenditures. On the other, there is the inescapable fact that some of the nation's military equipment must be modified or replaced because of the wear and tear of long years of service, and some of it has been made obsolete by advancements in technology.

This year we will be involved in three very important competitions for programs that have potential for long production runs. In one, scheduled to begin almost immediately, a Boeing Vertol helicopter will compete in a flyoff to fill the U.S. Army's major requirement for a versatile new medium-sized utility and tactical aircraft. In the second competition our YC-14 prototype, which is scheduled to roll out of our factory this summer, will be judged against a competitor to fill a major U.S. Air Force requirement for a jet cargo transport of medium size and range. While the helicopter competition is expected to be completed this year, the evaluation process for the cargo transport program may not be concluded until next year.

Of equal importance, our 747 will have an opportunity to compete for an emerging Air Force tanker/cargo requirement. With its development costs behind it and its wide-ranging abilities already firmly established, the 747 should be very cost-effective in this new, dual role.

The year ahead will also be an important one in determining the future of at least three of our major military research and development programs. Currently, the Navy is testing our military hydrofoil, the Army is evaluating a European-developed close-combat missile which we are helping to adapt for possible U.S. production, and the Air Force is sponsoring the development of a strategic air launched cruise missile. Progress on all of these, as well as for more mature Boeing military programs, is detailed elsewhere in this report.

With the national commitment to space activities and exploration greatly reduced in the past several years, Boeing's new assignments have been few and relatively small compared with other programs. Although we do not expect a significant increase in this category of business in the near term, we are encouraged by opportunities associated with the Space Shuttle program later in the decade and by assignments to supply NASA-instrumented satellites which will measure stratospheric aerosol effects and earth resources.

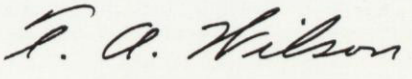
In other areas of our business, production of light rail vehicles and commercial hydrofoil boats is a major challenge. It is believed that substantial markets are attainable for these products. The ultimate success of these programs will be determined largely by our ability to effectively exploit these new markets. This ability, in turn, will be determined by the overall operating performance of the products and by our success in driving costs down as we emerge from present start-up production phases.

In 1975 our domestic employment was reduced by approximately 10,000 to reach a year-end figure of 68,000. Current projections indicate a further reduction of 5 to 10 per cent is probable in 1976. None of the company's labor contracts with major employee groups is subject to renewal until 1977.

With respect to current Governmental inquiries involving political contributions and payments relating to foreign sales, the company's position is stated on the opposite page.

In summary, problems exist in several areas, with the overriding element being a combination of a dramatic rise in the cost of fuel coupled with the disappointing performance of the total economy. Air travel growth—and the production of jet transport equipment to meet rising air travel demands—depends on a return to a strong world economy. When an upturn comes, Boeing's present family of jet transports can provide the world's airlines with equipment they will need to meet nearly any route requirement. The compelling need to replace or improve much of the military equipment now in service assures continuing market requirements for which the company is well postured to compete.

Boeing continues to be in a sound financial condition with a low debt burden, well developed markets and respected product lines. We believe we are in a position to make the most of whatever opportunities 1976 presents.



Chairman of the Board
Chief Executive Officer

President

March 1, 1976

■ The first production E-3A airborne command and control system aircraft for the U.S. Air Force will be delivered in 1977. A NATO decision on procurement of the E-3A is expected in 1976.

In January of this year the Securities and Exchange Commission subpoenaed certain company records in conjunction with a broad investigation being conducted by it into political contributions, accounting records and foreign payments of many corporations.

The company agreed to comply with the subpoena but first sought a protective order from a federal court prohibiting disclosure by the Commission to third persons of the confidential proprietary commercial and financial information that the company would provide to the Commission in response to the subpoena. The order requested by the company was granted, and the company is now cooperating with the Commission in its investigation.

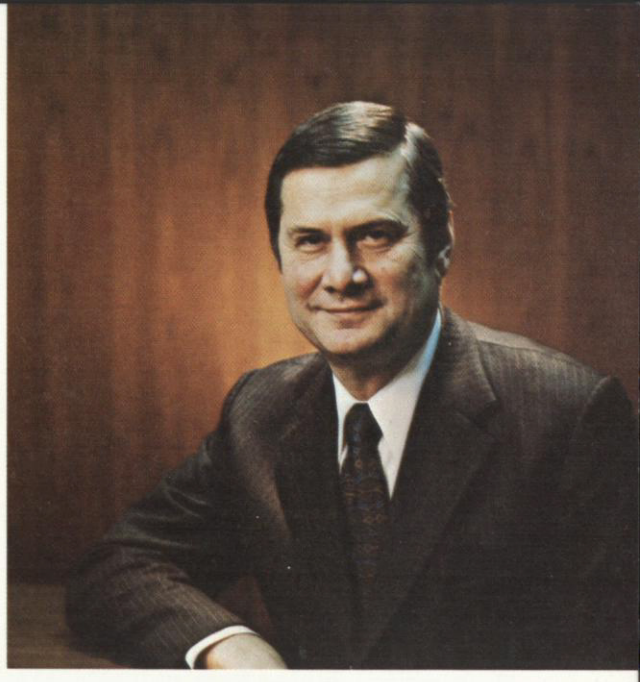
Prior to receipt of the subpoena, management with the assistance of company general counsel initiated a review of the same subject matter. Such review has not been completed. On the basis of the information developed to date, management believes that the company has made no illegal political contributions and that it has complied with all applicable securities laws, rules and regulations.

The company has used sales representatives and consultants on a contingent fee basis where such arrangements appeared to be advisable for the conduct of business in the foreign countries involved. A limited number of the sales representatives and consultants held a position with their governments, but management believes none had the authority to purchase or approve the purchase of the company's products or services. All payments made with respect to foreign business have been clearly identified in the company's accounting records, and no funds have been diverted, either directly or indirectly, to so-called "slush funds."

■ The Advanced 727, shown during a test flight over the mountains of the Pacific Northwest, continues to rank as the most widely ordered jet transport in the world.

■ Final assembly of 737 has been consolidated into one facility to improve production efficiency. The 737s move progressively along this line to rollout.

BOEING COMMERCIAL AIRPLANE COMPANY



■ E. H. Boullioun
President
Boeing Commercial Airplane Company

A total of 171 jet transports was delivered during 1975 compared with 189 in 1974. By model, 1975 deliveries consisted of twenty-one 747s, ninety-one 727s, fifty-one 737s and eight 707s. Also during the year, major testing and initial production work was completed on the 747SP (Special Performance) airplane being introduced into airline service this spring. Because the 47-foot shorter derivative of the basic 747 provides longer range and higher speed capability than other models, long-range routes can be flown with fewer stops and with appreciably shorter travel time for passengers. This opens up attractive new uses and route opportunities for its airline buyers.

The first SP was rolled out of the factory May 19 and made its first flight on July 4. From then until completion of the flight-test program in mid-December, a four-airplane test fleet compiled 544 hours of test flying during 340 flights. On February 4 of this year, culminating 2½ years of development and manufacturing effort, Federal Aviation Administration certification for the SP was received. First deliveries of the 747SP began early in 1976 to Pan American.

Marketing activity for the airplane included an end-of-the-year demonstration tour which is portrayed on the cover of this report. The month-long worldwide sales demonstration tour took the 747SP to 18 cities in 18 countries, including three dramatic long-distance flights: New York to Tokyo, Sydney to Santiago, and Mexico City to Belgrade. Each of the flights covered some 7,000 statute miles. It was the first time the New York-Tokyo route had been flown nonstop and demonstrated the feasibility of such service. In all, the 747SP accumulated 72,152 miles and 140 hours of flight time in one of the most ambitious demonstration tours ever undertaken by the company. Importantly, the 747SP exceeded all performance estimates, and performed impressively from some of the world's most demanding airports.

With eight versions of the 747 in production or on order, the 747 now is available in configurations ranging from 660,000 pounds gross weight (747SP) to 820,000 (747F freighter) and available in versions tailored to carry passengers or cargo or almost any combination of both.

■ Airline demand for the 737 remains strong, with seven new customers added in 1975.

■ Cargo-carrying capability of 747 continues to be exploited by airlines. Forty-eight 747s with freight features were delivered or on order at year's end.

Four different engines—two from Pratt & Whitney and one each from General Electric and Rolls-Royce—are available. The second and more powerful version of the Pratt & Whitney JT9D rated at 52,000 pounds of thrust is scheduled to be certificated aboard a 747 freighter early in 1976. Rolls-Royce became a participant in the 747 program in 1975 when the British government announced it would support that company in the application of its engine on the 747. British Airways ordered four 747s powered by the Rolls-Royce engines, and installation and testing leading to these deliveries will be under way in 1976.

During 1975 the market for commercial airplanes declined approximately 33 per cent from the 1974 level. This was directly attributable to the poor financial condition of many of the world's airlines. Plagued by increasing fuel and operating costs, lower fare yields, and less-than-desired passenger growth, the airlines were precluded from making major investments in new airplane equipment.

Indicative of the problems being faced by the airlines was United Airlines' announcement in August to defer indefinitely its decision to purchase the stretched, improved 727-300. Up until that time the 727-300 had been the major new derivative effort in

the company. United, while pointing out that the -300 had more to offer than any other aircraft for its fleet needs and as a long-run replacement airplane, cited the problems noted above and uncertain economic indicators for its decision.

Even though there was a decline in total new orders booked, we again outsold both foreign and domestic competition in all three markets—for short, intermediate and long-range aircraft. Orders for twenty 747s were announced during 1975 (compared with 29 in 1974), making it once again the best-selling wide-body aircraft.

Although orders were reduced from 95 in 1974 to 50 in 1975, the 727 continued to be the best-selling commercial jet transport throughout the world. By year's end a total of 1244 had been ordered by the world's airlines.

The popularity of the 727 is attributable to a number of factors. One is the airplane's economics. Its operating costs are appreciably lower than those of older aircraft of equivalent passenger capacity. Consequently, the 727 has been the logical choice for airlines upgrading their fleets. Secondly, the aircraft has the capacity, range and flexibility to fit a great number of routes and frequent flight schedules.

The 737 has continued to do well against the competition with orders for 35 during the year compared with 47 in 1974. Like the 727, the airplane has proved attractive to airlines for modernization and replacement requirements. Both the 727 and 737 have benefited from the company's aggressive policy of incorporating new developments and technology in existing models. For example, both aircraft have undergone engine modifications to bring them into compliance with the latest Federal noise regulations.

Now in its 18th year of production the 707 continued at a one-per-month production rate and new orders for nine aircraft, including those for U.S. Air Force requirements, were received in 1975.

Because of the reduction in orders—most of which are for production and delivery in 1976 and beyond—the company reduced its production rates during the year on both the 727 and 737 programs. At year's end, production rates of all models totaled 11½ airplanes per month, compared with 16½ at the beginning of the year. The Commercial Airplane workforce was reduced by about 6,500 during the year to maintain efficient productivity at the lower rates.

Older standard-body airplanes make up the bulk of the fleets of many of the company's largest customers. A substantial number of these airplanes either are or soon will be fully depreciated; are becoming less economically competitive with newer models because of high fuel costs, are being used on non-optimum routes and do not meet new regulatory requirements. The company believes that, with a return to economic stability and airline financial strength, new derivative models and new aircraft

■ New, straight stair leading to 747 upper deck was designed to permit easier access for larger number of passengers using "upstairs" in some superjets.

■ VC-135B from Air Force's Special Air Mission fleet is among high time aircraft in 135 series to receive new lower wing panels for service life extension.

such as the 7X7 will be required in quantity for this long-term replacement market.

In view of this anticipated improved market, we are applying special effort at upgrading the performance of existing models with new derivatives as well as continuing preliminary design studies on the 7X7 program. These studies focus on a medium-range airplane in the 180-200 passenger category. As an outgrowth of extremely high fuel prices, 7X7 engineering emphasis has been directed at technical areas which could lead to significant improvements in fuel efficiency and airline economics.

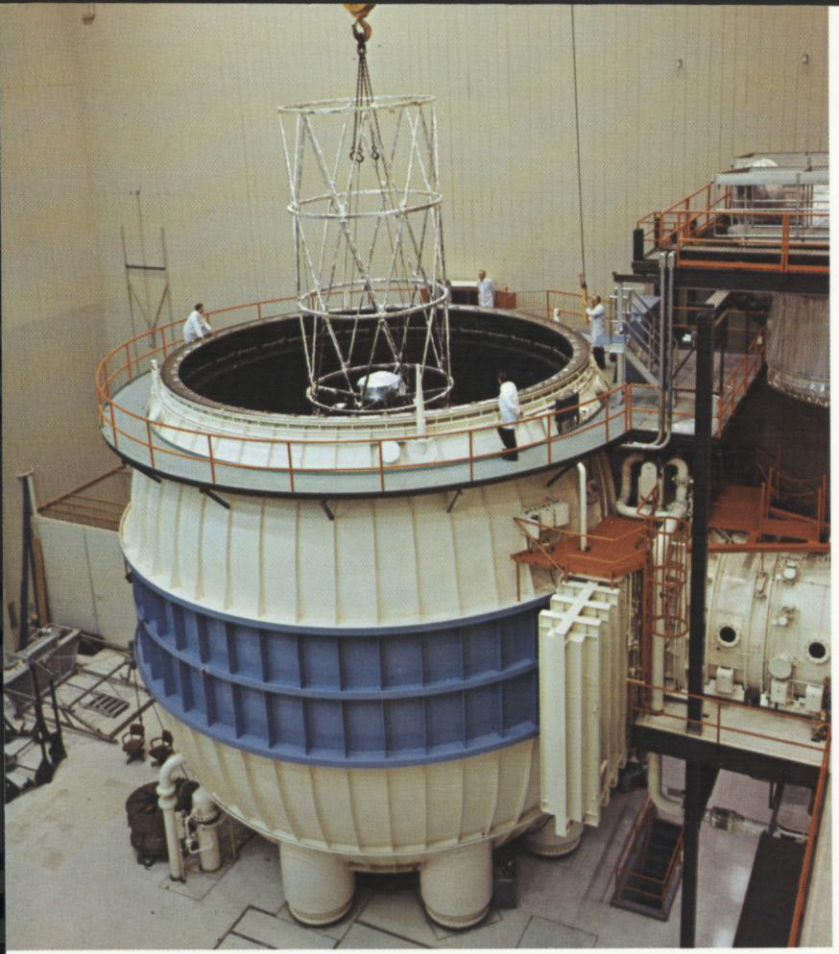
During 1975, 7X7 wind tunnel tests, design studies and mockup work continued. Elements normally prone to design change and high production costs received particular attention. As part of this effort several test components are being designed and will be constructed and tested in Italy under the auspices of the company's 7X7 associate, Aeritalia. Late in the year, a company-designed noise suppression system, considered the world's most advanced, was being tested on an experimental basis.

The 7X7 will combine a more efficient wing design with the latest technology in engines, structures and avionics to form a "workhorse" airplane in a size not currently available. Inherent in the design is the provision for a new "family" of jetliners, including both short- and long-range models as the market demands them.

In addition to the Boeing/Aeritalia (Italy) relationship which dates back to 1971, the company continued discussions during 1975 with other foreign manufacturers aimed at making broader international participation in the 7X7 program possible. Progress toward Japanese involvement in the 7X7 program was made in discussions with the Civil Transport Development Corporation (CTDC), a Japanese organization with both government and industry participation. Continuing collaborative discussions are also underway with aerospace interests, both at the government and industry level, of France, the United Kingdom and Germany. In addition to the potential 7X7 program, such international collaboration could be applied to derivatives of existing models.

In summary, while 1975 was one of substantial achievement, it also continued to demonstrate that the commercial aircraft market is highly sensitive to the economy, both domestic and worldwide, and that it will take some time for any economic rebound to be translated into increased airplane deliveries.

In the meantime we are examining ways to increase our productivity at the lower production rates as well as continuing to develop and incorporate improvements in our existing line of jet transports. Finally, we are emphasizing development work on new aircraft designs to insure that we will be ready to launch a strong program when market conditions are right.



■ Model of structure to hold the mirrors of NASA's proposed Space Telescope emerges from the Space Simulation Chamber.

■ Full-scale model of Air Launched Cruise Missile was used to prove deployment of foldable flight surfaces.

■ First of two YC-14 prototypes is scheduled for its initial flight this summer. Featuring a unique upper surface air flow system, the YC-14 is Boeing's entry in a two-company competition for the U.S. Air Force's Advanced Medium STOL (Short Take-off-and-Landing) Transport program.

WICHITA DIVISION

The Wichita Division experienced favorable growth in business volume during the year with emphasis on five market areas: Military Aircraft Modernization, Commercial Aircraft Modification, Interdivisional Support, Nacelle/Noise Abatement and Automated Systems.

Largest single military program was the B-52D structures modification effort involving 80 Air Force bombers. First of the modified B-52Ds was returned to duty with the Strategic Air Command in November. Deliveries of remaining Stratofortresses are scheduled throughout 1976 with the final delivery in early 1977.

The KC-135 Modification/Primary Depot Maintenance program continued into its fifth year with 156 Air Force tankers moving through the line during 1975 and a comparable number committed for 1976. The Wichita Division will enter competitive bidding for follow-on contracts to continue this annual modification work.

Late in the year Wichita also received the first of seven KC-135 tankers for installation of new and improved lower wing skin hardware. This effort, which will extend the service life of the airplanes, is programmed into late 1976 with follow-on work anticipated.

Current research and development contracts for B-52/KC-135 improvements include a B-52 prototype tail warning radar system, multipoint refueling studies, and a study on re-engining the KC-135.

Five 747 Freighter conversions were completed for commercial and non-U.S. Government customers. Fifteen additional 747 Freighter conversions are scheduled for the Wichita modification line. Customers include American, Pan American, Flying Tigers and the Government of Iran.

Wichita's Nacelle/Noise Abatement group fabricated struts and nacelles for the YC-14 prototypes and for CF6-50 engines used on 747 airliners produced at Everett.

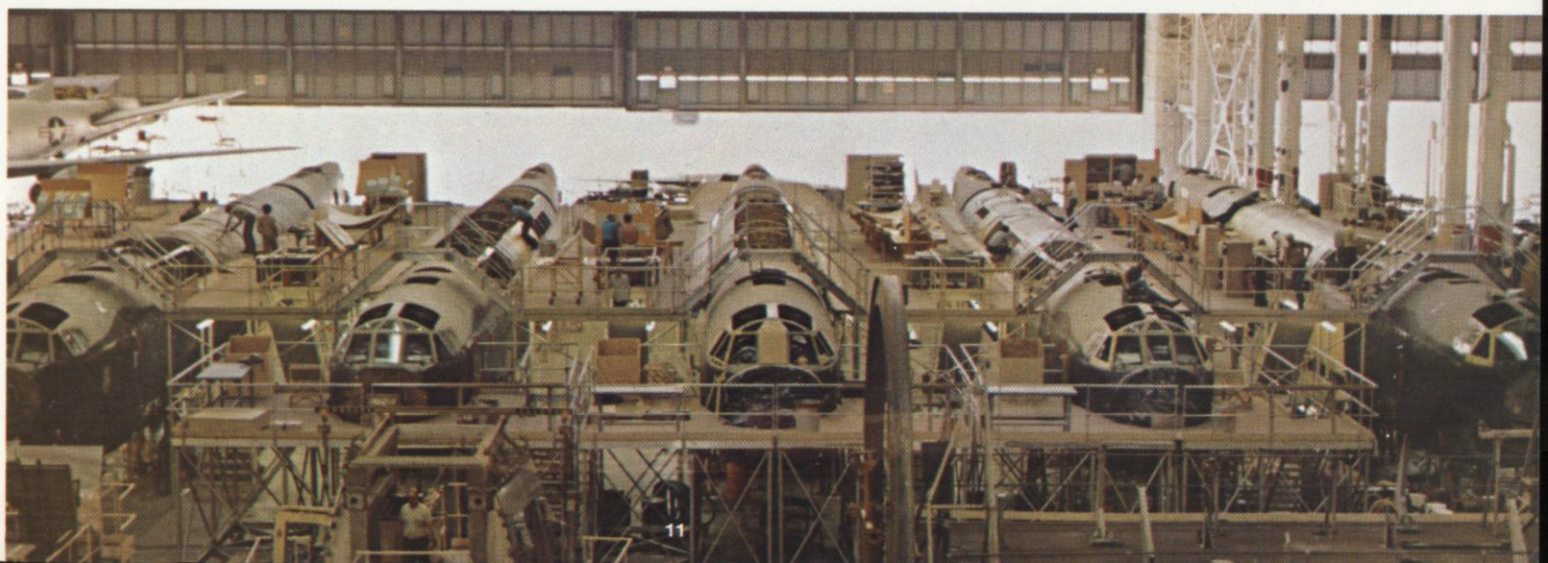
Development of ground noise suppressor equipment for the Navy, electro-optical viewing systems equipment for the B-1 bomber and production of ground support equipment for use with Forward Looking Infrared installation on Navy S-3A aircraft continued during the year.

Support to other company organizations in both development and production continued to be a major part of Wichita Division business. Major structural components for the 707, 727, 737, and 747 commercial aircraft were shipped to Seattle for installation.

The major factors which influence Wichita's business base remained relatively unchanged throughout the year. While Department of Defense budget constraints were evident, procurement of B-52/KC-135 improvements occurred essentially as planned.

■ Otis H. Smith
Vice President—General Manager
Wichita Division

■ Extensive modification of 80 B-52D bombers produced originally by Boeing in the 1950s assures their role in the Air Force strategic fleet into the 1980s.



BOEING AEROSPACE COMPANY

During 1975 continued progress was made in the developmental phases of a number of programs which hold important long-term business potential for Boeing Aerospace Company.

Principal activities involved the design, development and production of high-technology systems for the nation's defense forces. While major emphasis was on airborne information systems, military aircraft and strategic weapons, the company also improved its position in other facets of the military market and in the field of space.

A major technical achievement has been the development of the E-3A, the airborne command and control system formerly called AWACS, a system which will greatly increase the effectiveness of tactical air power and air defense. This system consists of avionics, radar, identification equipment, computers, displays, and navigation and communications gear mounted on a 707 airframe.

Two of three pre-production E-3A aircraft entered flight-test status in 1975. Tests carried out with the prototype involved more than 1,600 flight hours during which more than 1,000 aircraft tested the system's ability to locate targets, resist jamming and perform other assigned tasks.

Early in the year, Boeing received U.S. Air Force authorization to proceed with the first six production E-3A aircraft. An additional four have been authorized in the fiscal 1976 defense budget. Also during 1975, Boeing obtained a contract to define costs, schedules and technical aspects of possible deployment of the E-3A by NATO forces. A NATO decision on procurement is expected in 1976.

A second highly successful development program during 1975 in the airborne information systems category involves Boeing's contract as avionics integrator on the B-1 supersonic bomber. Boeing-supplied equipment will be tested in the third B-1 test aircraft, scheduled to fly this spring.

Also in the information systems category is the Advanced Airborne Command Post. Three of these aircraft have been delivered to the Air Force, which will use them as flying command-and-control stations. These modified 747s are equipped with command, control and communications systems removed from older EC-135s. For the fourth aircraft, work is progressing on a new electronic package. The major current effort is on the design of a 1200-KVA electrical system, by far the most powerful ever developed for airborne use.

■ O. C. Boileau
President
Boeing Aerospace Company

To enhance the company's capabilities in the field of military aircraft, the company has formed a new organization called Boeing Military Airplane Development. This group is focusing on those technology and development areas most likely to contribute to winning entries in future competitions. Three current projects — the C-14 transport, Compass Cope remotely piloted vehicle (RPV), and 747 tanker-cargo aircraft — also were moved into the new organization.

The group's principal effort at this time is the C-14, Boeing's entry in the Air Force's Advanced Medium STOL (short takeoff-and-landing) Transport competition. Boeing is building two prototypes, called YC-14s, which will demonstrate Advanced STOL technology in comparison with a competing aircraft, the YC-15. The first YC-14 moved into final assembly in the fall and work on the second is now under way. Testing of the first full-scale engine and wing combination for the airplane's unique upper surface air

■ Company-owned 747 simulated refueling of Boeing-built B-52 during feasibility tests conducted for the Air Force in 1972. Sale of 747 for USAF cargo/tanker role is 1976 business goal.

■ Boeing Jetfoil Kamehameha, now carrying tourists between Oahu, Maui and Kauai, here skims over Puget Sound prior to being shipped to the Islands.

■ Although deployment of Minuteman III intercontinental ballistic missiles is complete, production continues for crew training and force improvement.

flow system began late in 1975. The first flight of the prototype is scheduled for this summer.

Boeing's Compass Cope also is moving toward a future competition. A request for proposal is anticipated in 1976, calling for continued development.

The company expects a request for proposal in 1976 for an advanced tanker-cargo aircraft competition, assuming favorable action by Congress. Through this competition, the Air Force proposes to introduce into its inventory aerial tankers with airlift capabilities. Boeing believes the performance and flexibility of the 747 make it ideally suited for this Air Force requirement.

In strategic weaponry for the Air Force, Boeing completed one program (SRAM), continued with another (Minuteman), and moved ahead with advanced development of a third (ALCM).

The production phase of the Short Range Attack Missile (SRAM) was concluded with delivery of the 1,500th missile. Cost and schedule performance made this one of the most successful production programs in company history. SRAM is deployed on the Strategic Air Command's B-52 and FB-111 aircraft and has been designated as a major element in the B-1 bomber's armament. Additional orders depend upon Congressional approval for production of the B-1.

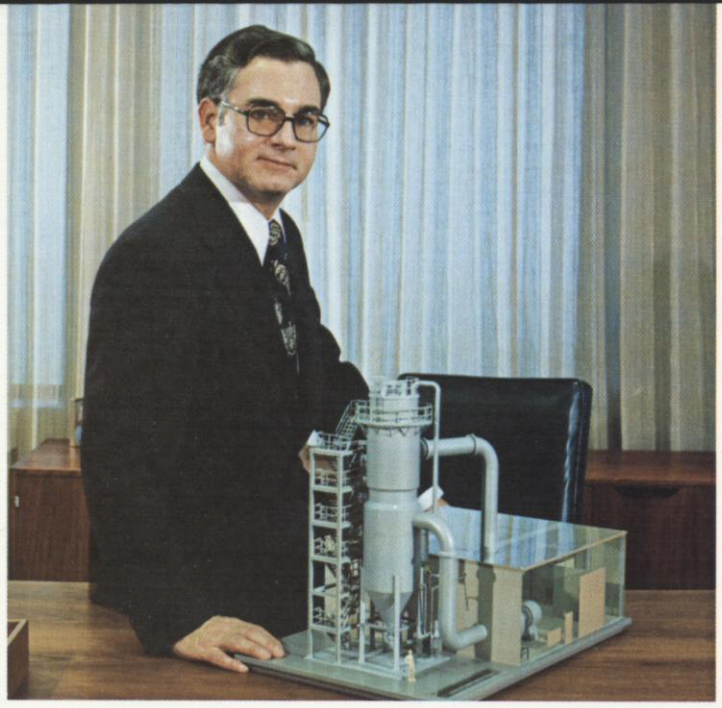
During 1975, the 550th Minuteman III intercontinental ballistic missile was placed in its underground silo at Malmstrom Air Force Base, Montana. Missile assembly continued, though at a lower rate, for spares provisioning and training launches. Production of ground-support hardware, for modernization of Minuteman sites, also proceeded during the year. Field assembly and checkout of this hardware at Minot AFB, North Dakota, will be completed early in 1976 and similar work, begun last year at North Dakota's Grand Forks AFB, will continue into 1977.

As production work on SRAM was concluded, advanced development on the Air Launched Cruise Missile (ALCM) was begun. Boeing serves as prime contractor for airframe and integration. Last summer the company conducted successful flights with a half-scale model and jettison tests of a full-scale vehicle. By year end the first two prototype ALCMs had been assembled and were being prepared for flight. Seven missiles will be flight tested in 1976.

For the Army, Boeing began manufacture of components for the Roland short-range air defense missile system, on which the company is principal subcontractor to Hughes Aircraft. Missiles and ground equipment built by the two firms will be tested in 1977. The Roland system is based on a design developed in Europe. Boeing also delivered to the Army a radio frequency simulation laboratory to be used in evaluating the performance of missiles in a simulated combat environment.

Through its development work on space vehicles and related projects, the company is attempting to increase its involvement in space activities. Three of its most promising programs in this field are associated with the Space Shuttle, NASA's principal undertaking for the next decade.

In the largest of these programs, Boeing is seeking an assignment to design, develop, fabricate and assemble the support systems module for NASA's



■ H. K. Hebeler, Vice President-General Manager, Boeing Engineering & Construction, is shown with a scale model of the Brine Concentrator.

2.4-meter Space Telescope, an instrument intended to carry astronomy above the distortions of Earth's atmosphere. Under a present contract, the company is nearing completion of preliminary design and program definition of the highly sophisticated module, which will provide such functions as power, guidance, communications and stabilization. NASA expects to lift the telescope into Earth orbit aboard the Space Shuttle in the early 1980s.

Working with Boeing Commercial Airplane Company, Boeing Aerospace also has begun detailed design and fabrication for the conversion of a 747-100 into a carrier for Space Shuttle orbiters. The aircraft will be used both for transporting the orbiter from landing area to launch site and as launch platform for orbiter glide and landing tests. The airplane's modification will begin in mid-1976.

In its third Shuttle-related program, Boeing is pursuing the role of developer of an upper stage which will carry Shuttle payloads from their nominal orbit of 160 nautical miles either into another orbit or onto a planetary trajectory. It is expected that more than 100 of these space vehicles will be required in the Shuttle's first five years of operation.

In November Boeing was chosen to provide spacecraft modules for NASA's first and second Applications Explorer Missions. The modules, equipped with scientific instruments, will be launched in 1978 and 1979. The first will be used to identify the Earth's mineral resources, soil mixture and vegetation cover, and the second will measure stratospheric aerosols and ozone on a global scale.

In the commercial hydrofoil field, five passenger-carrying vessels called Jetfoils are now in operation. Far East Hydrofoil Company, Ltd., inaugurated Jetfoil service in April and presently has two on its Hong Kong-Macao route. Pacific Sea Transportation employs three Jetfoils on passenger routes linking the islands of Hawaii.

The first patrol hydrofoil missileship, *Pegasus,* moved to Southern California waters late in 1975 for operational and technical evaluation by the U.S. Navy. It will be delivered this year, following acceptance trials. Production of additional ships awaits decisions by the U.S. Navy and the Federal Republic of Germany, expected in 1976.

Boeing's automated transit technology entered public service at two locations in 1975. The system developed for the Urban Mass Transportation Administration at Morgantown, West Virginia, began carrying passengers in October. A similar system, designed by Boeing for a Japanese customer, carried 4 million riders at the International Ocean Exposition (the 1975 World's Fair), which ran from last July until January of this year.

Boeing's support-services organization was awarded a four-year contract to provide services for six U.S. Air Force installations in Spain. It continues its support of seven Air Force locations in Turkey and holds similar contracts with NASA at Kennedy Space Center and New Orleans.

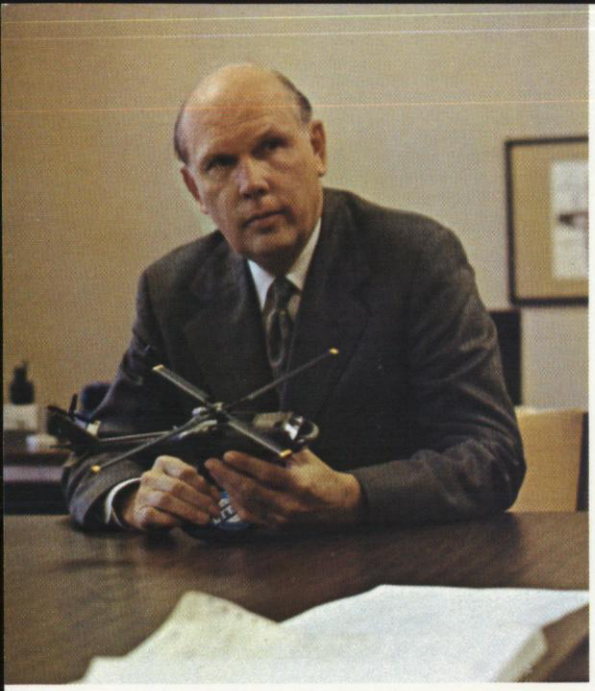
The company continued to prepare for the future in other ways, too. For example, it acquired more than 100 research contracts during the year, which will enable Boeing to advance its technology in areas applicable to future business.

BOEING ENGINEERING AND CONSTRUCTION

Boeing Engineering and Construction is focusing its attention on two key business areas: energy and the environment.

BEC has consolidated several pre-existing Boeing organizations, and also has introduced some new operations. New energy-related assignments include the design and fabrication of auxiliary equipment for nuclear power plants and associated work for storing and transporting spent nuclear fuel. BEC has two contracts for development work on solar-thermal power generation, and is responsible for the design and assembly of a major computerized control system for the Bonneville Power Administration.

Resources Conservation Co., which is operated by a subsidiary of Boeing and owned by subsidiaries of Boeing, The El Paso Company and Reading and Bates Offshore Drilling Company, has developed a large evaporator system called a Brine Concentrator to treat polluted industrial waste water and return pure water. The company has contracts for Brine Concentrators in New Mexico, Utah, Arizona, Colorado, Montana and Alberta, Canada. Other environment-related projects include the construction by a subsidiary, BOECON, of a number of municipal wastewater treatment plants in the Western United States and Hawaii.



■ H. N. Stuverude
President
Boeing Vertol Company

BOEING VERTOL COMPANY

Vertol's activities are concentrated on the development and production of helicopters and surface transportation systems.

Its newest helicopter, UTTAS, is considered a strong candidate for a major U.S. Army production award expected by the end of 1976. Four of these new helicopters were built, and three of them are being evaluated for use in the Army's Utility Tactical Transport Aircraft System. Although one of the helicopters sustained repairable damage during testing, performance of the aircraft during the test program has met or exceeded Army specifications. In addition, the company continues to work closely with the U.S. Navy in defining a UTTAS derivative for its needs.

During 1975, 22 CH-47C Chinook helicopters were delivered to the U.S. Army, Canadian Defense Forces and Agusta, our Italian licensee. In addition, 16 Chinooks were overhauled and redelivered to the U.S. Army. New orders for 11 aircraft were received from international customers, and 12 aircraft have been approved in the FY'76 budget by the U.S. Congress.

The Department of Defense has approved a CH-47 prototype modernization program to extend the service life of the Chinook into the 1990s. Following the program's development phase, it is expected that over 400 Chinook helicopters will be modernized during the 1980s.

In another helicopter modernization program, two prototype Navy CH-46 aircraft have entered flight testing and have demonstrated technical performance which meets the customer's specifications. As a result the Navy has placed an order for certain long-lead materials. The Navy plans to convert up to 290 helicopters to the new configuration. This will extend the life of the CH-46 through the 1980s.

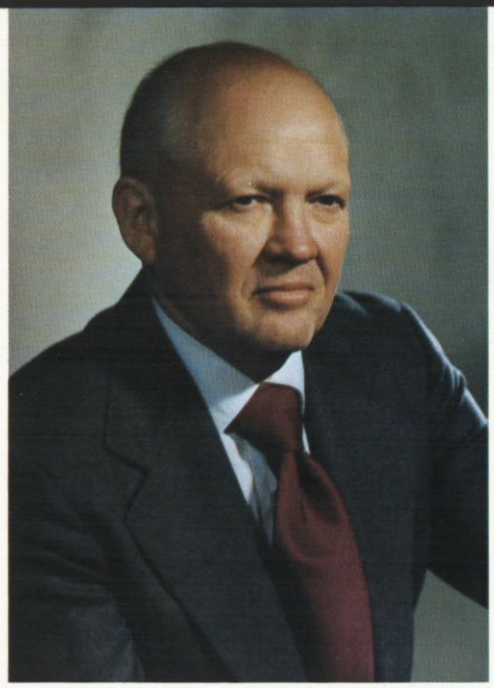
Congressional action in August, 1975, terminated the Heavy Lift Helicopter program. However, the advanced technology which was developed under the program provided a foundation for advanced subsystems in the UTTAS and for the CH-47 modernization program.

The company has three major programs in the rapid transit field: an Urban Rapid Rail Vehicle & Systems program for the U.S. Department of Transportation; a Light Rail Vehicle program in which streetcars are being produced for Boston and San Francisco; and a program to produce rapid transit cars for Chicago.

The company serves as systems manager for the Department of Transportation's program. It consists of the development and demonstration of two State-of-the-Art (SOAC) cars, two Advanced Concept Train vehicles, and an Advanced Subsystem Development program. During 1975, the SOAC cars successfully completed demonstrations in New York, Boston, Cleveland, Chicago, and Philadelphia, carrying more than 312,500 revenue passengers. Advanced Concept Train vehicles are currently in development,

■ Functional and operational testing of this LRV is being conducted on the company's test track.

■ Boeing helicopters shown in close formation will compete for Army's Utility Tactical Transport Aircraft System assignment.



■ R. W. Tharrington
President
Boeing Computer Services, Inc.

■ Flight simulation and test analysis system installed at Vertol by BCS analyzes flight data while the test aircraft is in the air.

with testing scheduled to begin in 1976. The Advanced Subsystem Development program began in the fourth quarter of 1975 with the award of contracts for a new type propulsion system and new trucks for development and testing on the SOAC cars.

On the Light Rail Vehicle (streetcar) Program a 3-month series of tests was successfully accomplished in Boston during 1975. Performance was within specification requirements in all major areas. Three cars are presently at Pueblo, Colorado, undergoing developmental and engineering tests. For several reasons, including a lengthy strike at Vertol, initial deliveries of 275 cars ordered by San Francisco and Boston were rescheduled from 1975 to 1976.

On the 200-car Rapid Transit program for the Chicago Transit Authority, the customer has approved the mockup and first carbody. Start-up of the carbody production line is in process.

■ CH-47C Chinook fills U.S. Army's requirements as an all-weather medium transport helicopter.

BOEING COMPUTER SERVICES

Boeing Computer Services, Inc. (BCS) completed its fifth full year as a subsidiary of The Boeing Company, providing all computing services for Boeing operating organizations plus supporting over 1,250 commercial customers across North America and into Europe with local and remote computing, facility management, custom programming, application packages, training, and consulting.

A number of new Boeing computer systems became operational in 1975. An online production planning system, designed for use by all Boeing manufacturing organizations, was installed in The Commercial Airplane Company and is expected to improve production planning and reduce costs. At the Vertol Company, a flight simulation and test analysis system was completed which analyzes flight data while the test aircraft is in the air.

During 1975 BCS introduced several new commercial products including specialized software offered as a package with minicomputers. Such turnkey applications include systems to dispatch emergency vehicles, to control county property tax records, and an accounting and control system for a wide variety of small businesses. Largest single new business contract won during the year was a 5-year, $35 million contract to manage and operate the Richland, Washington, computer facilities of the Energy Research and Development Administration. BCS provides complete data processing services for 20 commercial banks and 15 savings institutions and continues to be one of the main suppliers of computer services to the Alyeska Pipeline Services Company in Alaska.

FINANCIAL REVIEW

Sales, Earnings and Dividends

Consolidated 1975 sales of $3,719 million were slightly below the record $3,731 million of 1974. Export sales were 41% of total sales in 1975 compared with 44% in 1974. Sales to the U.S. Government were 38% in 1975 and 40% in 1974.

Including military derivatives, eight 707s, ninety-one 727s, fifty-one 737s and twenty-one 747s were delivered in 1975 for a total of 171. This compares with 1974 deliveries of twenty-one 707s, ninety-one 727s, fifty-five 737s and twenty-two 747s for a total of 189. Although commercial jet transport deliveries were slightly lower, increased spares deliveries, growth in support and modification programs, and the impact of inflation on prices resulted in total jet transport sales being comparable to 1974 levels.

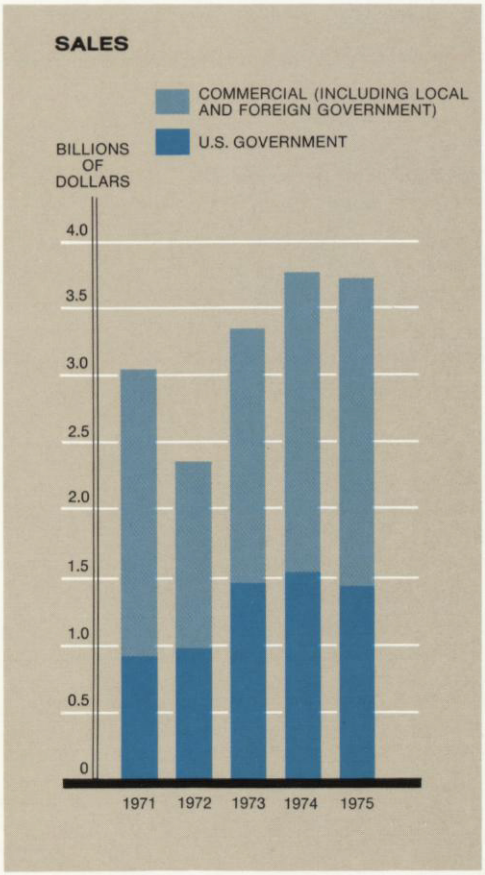
Current schedules call for the 1976 delivery of approximately ten 707s, sixty 727s, forty 737s and thirty 747s for a total of 140.

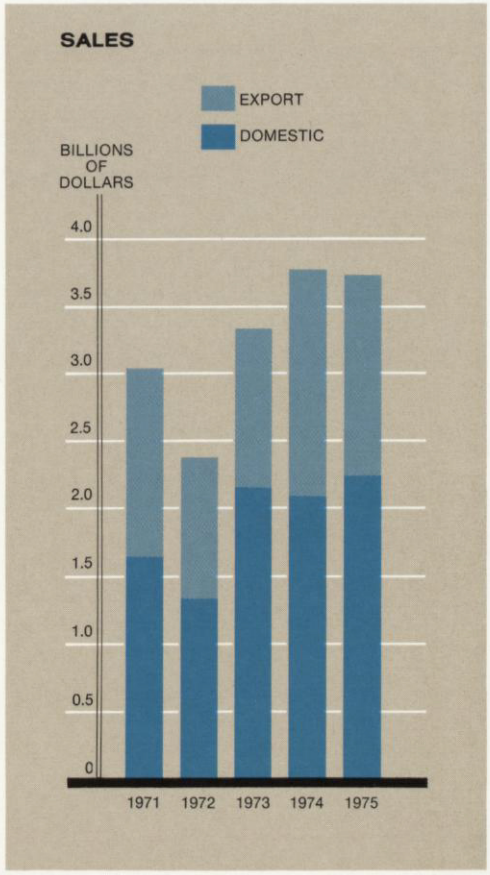
Military aircraft program sales were slightly below prior year levels with decreases in E-3A (AWACS), Airborne Navigator Trainer and helicopter sales being partially offset by increased Airborne Command Post, YC-14 and B-1 Avionics sales. Missile/space sales were also lower. Although Minuteman and Air Launched Cruise Missile (ALCM) program sales were above prior year levels, these increases were more than offset by the decline in SRAM missile sales. This decline was occasioned by the conclusion of the current SRAM production program.

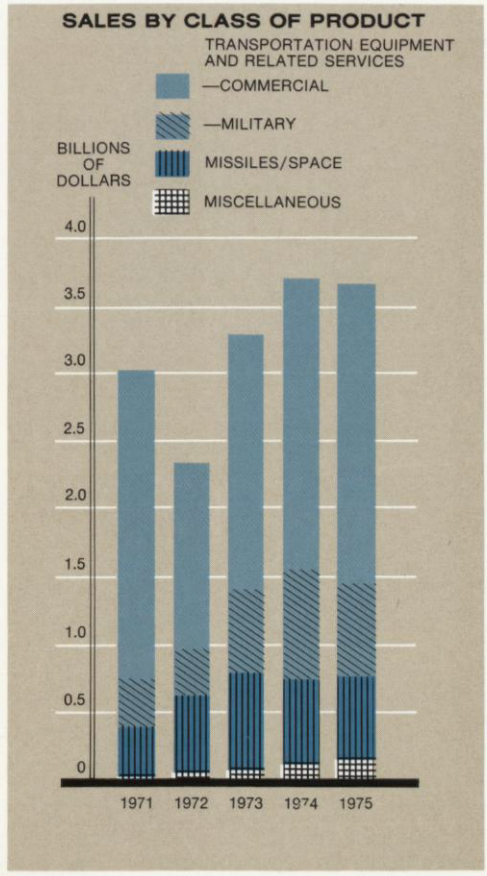
Based on current programs and schedules, 1976 sales should approximate the levels achieved in 1975.

The company continued its practice of charging directly to earnings as incurred, research, developmental, general and administrative expenses except to the extent such expenses are estimated to be recoverable under contracts.

Research and development expenses of $188 million and general and administrative expenses of $117 million charged directly to earnings in 1975 were respectively $9.6 million and $6.4 million higher than in 1974. The increases are attributable principally to the continued impact of inflationary fac-





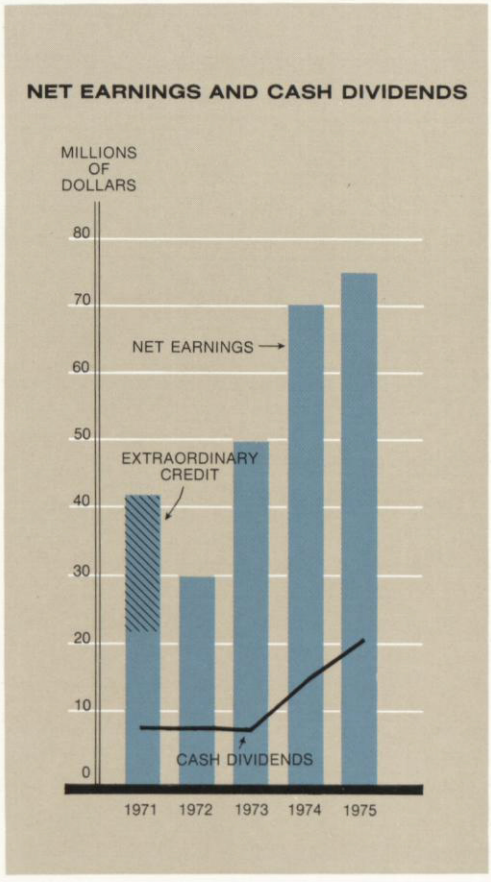


tors. Research, development and other expenditures relating to new aircraft, derivative models and product improvement of commercial jet transports and other transportation equipment programs continued at a relatively high level. The somewhat improved earnings were primarily achieved through continued favorable performance on major programs coupled with an increase in other income and a modest reduction in interest and debt expense.

Earnings before Federal income taxes were $112.7 million, an increase of $10.3 million or 10.1% above the comparable 1974 figure of $102.4 million. The 1975 provision for Federal taxes on income increased to $36.4 million from $30.0 million in 1974. The $6.4 million increase resulted from the tax on increased earnings plus the net effect of a $1.5 million decrease in benefits from the company's domestic international sales corporations and a $0.6 million increase in amortization of previously deferred investment tax credits.

Net earnings for 1975 were $76.3 million, an increase of $3.9 million, or 5.4% over the $72.4 million reported for 1974. The earnings amounted to $3.60 per share or 2.05% of sales, compared with $3.42 per share and 1.94% of sales for 1974.

Sales and approximate earnings contribution by the company's major business categories for the five-year period 1971 through 1975 are summarized below:



SALES AND EARNINGS CONTRIBUTION *(in millions)*

	1975	*1974*	*1973*	*1972*	*1971*
Sales					
Transportation equipment and related services (primarily aircraft)	$3,005	$3,020	$2,598	$1,752	$2,661
Missiles/space and miscellaneous	714	711	737	618	379
Total	$3,719	$3,731	$3,335	$2,370	$3,040
Approximate Earnings Contribution After Program and Contract Research and Development Expenses					
Transportation equipment and related services (primarily aircraft)	$201.1	$167.0	$113.5	$119.1	$164.7
Missiles/space and miscellaneous	59.7	68.2	84.9	48.7	24.7
	260.8	235.2	198.4	167.8	189.4
Other expenses—net	(148.1)	(132.8)	(140.6)	(143.0)	(177.2)
Earnings before taxes and extraordinary items	$112.7	$102.4	$ 57.8	$ 24.8	$ 12.2

Unallocated "other expenses—net" include general and administrative expenses and company-sponsored independent research and development costs not recoverable under contracts, interest on debt and interest and miscellaneous income.

Quarterly dividends paid per share for 1975 and 1974 were as follows:

Quarter	1975	1974
1st	$ .20	$ .15
2nd	.20	.15
3rd	.20	.15
4th	.40	.30
	$1.00	$ .75

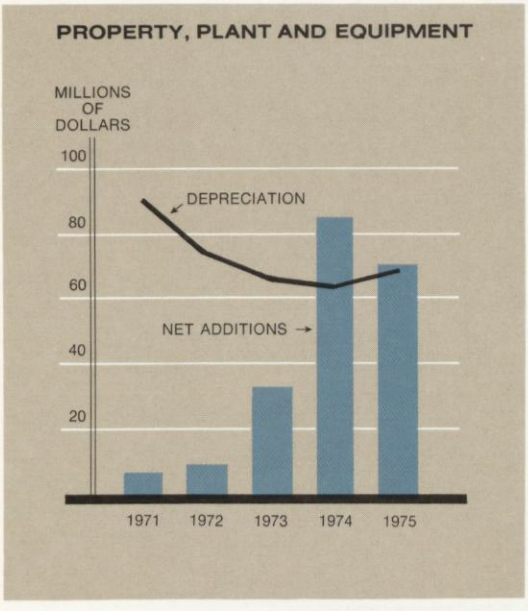
Regular quarterly dividends were increased from 10 cents to 15 cents per share in the first quarter of 1974 and were further increased to 20 cents per share in the first quarter of 1975. In addition, special dividends of 15 cents per share in 1974 and 20 cents per share in 1975 were paid in December. Effective with the first quarter of 1976, the regular quarterly dividend rate was further increased to 25 cents per share.

Ranges of 1975 and 1974 market prices for the company's common stock, as traded on the New York Stock Exchange, were as follows:

	1975		1974	
Quarter	High	Low	High	Low
1st	22⅜	15⅛	15⅞	11⅝
2nd	31⅞	20	18⅝	13¾
3rd	30⅞	23¾	20½	14½
4th	29½	22¼	19⅞	15⅛

Financial Position

At December 31, 1975, stockholders' equity in the company had passed the billion dollar level to a total of $1,010 million, up $55 million from the prior year. Working capital increased $76 million to $578 million. Jet transport financing, which includes long-term notes receivable from customer airlines and the depreciated book value of leased aircraft, decreased $25 million during 1975 to a total of $225 million at year end. The decrease represented a $56 million reduction in notes receivable offset by a $31 million increase in book value of leased aircraft. Facilities additions net of retirements exceeded plant depreciation by $4 million, increasing the company's net investment in plant and equipment to $373 million at the end of 1975.



Long term debt was $149 million at the end of 1975, a reduction of $15 million during the year, primarily reflecting required annual payments on long-term debentures and notes.

The company's commercial bank credit arrangements are covered by three major agreements. The 1972 bank credit agreement provides for a credit line of $100 million (reduced from $200 million during the year) for a fifty-two week period, with the provision that unless either the company or the banks give notice otherwise, such commitment will be extended on a weekly basis for an additional fifty-two week period. The agreement further provides that if such extensions continue beyond January 1, 1976, without amendment of the agreement prior to March 31, 1976, the commitments will thereafter be reduced by 8⅓% per quarter with a final termination date of December 31, 1978. There were no borrowings under this agreement at year end.

The second major agreement provides for open lines of credit aggregating $100 million which are available to the company through March 31, 1976, unless earlier extended. There were no borrowings under this agreement at year end.

The third major bank credit agreement provides a credit line of $50 million to Boeing Financial Corporation, a wholly-owned subsidiary established to assist in financing commercial aircraft. The loans are governed by a borrowing base which is dependent on assets owned by Boeing Financial Corporation. There were no borrowings under this agreement at year end.

Backlog

Total firm backlog of unfilled orders at the end of 1975 was $3,729 million, a decrease of $95 million or 2.5% from the $3,824 million reported at the end of 1974. Of the total 1975 backlog, $2,569 million or 69% was commercial (including local and foreign government) compared with $2,754 million or 72% at the end of 1974. United States Government backlog was $1,160 million or 31% at December 31, 1975 compared with $1,070 million or 28% a year earlier.

Conditional orders and purchase options are not included in commercial backlog. Government order backlog is limited to amounts obligated to contracts by the procuring agencies. If recognition were given to unfunded amounts under contract with the United States Government at December 31, unfilled orders would be increased by about $500 million at year end 1975 and $700 million at the end of 1974.

CONSOLIDATED STATEMENT OF NET EARNINGS AND RETAINED EARNINGS

	Year ended December 31,	
	1975	*1974*
Sales	$3,718,853,000	$3,730,667,000
Other income	50,850,000	47,334,000
	3,769,703,000	3,778,001,000
Costs and expenses	3,642,365,000	3,660,224,000
Interest and debt expense	14,591,000	15,345,000
	3,656,956,000	3,675,569,000
EARNINGS BEFORE TAXES	112,747,000	102,432,000
Federal taxes on income	36,400,000	30,000,000
NET EARNINGS	76,347,000	72,432,000
Retained earnings, January 1	516,788,000	460,254,000
Cash dividends paid: 1975—$1.00 per share; 1974—$.75 per share	(21,191,000)	(15,898,000)
Retained earnings, December 31	$ 571,944,000	$ 516,788,000
NET EARNINGS PER SHARE	$3.60	$3.42

See notes to consolidated financial statements.

THE BOEING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1975	December 31, 1974
CURRENT ASSETS:		
Cash and short-term investments	$ 108,593,000	$ 39,498,000
Accounts receivable	215,489,000	237,811,000
Current portion of long-term notes receivable	63,283,000	62,477,000
Inventories	777,740,000	763,109,000
Prepaid expenses	10,028,000	11,499,000
Total Current Assets	1,175,133,000	1,114,394,000
LONG-TERM NOTES RECEIVABLE, less current portion	181,591,000	237,513,000
LEASED AIRCRAFT, at cost, less accumulated depreciation: 1975—$98,046,000; 1974—$87,050,000	43,076,000	12,197,000
OTHER ASSETS AND DEFERRED CHARGES	16,315,000	13,075,000
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	27,152,000	26,977,000
Buildings	524,865,000	519,921,000
Machinery and equipment	620,319,000	578,975,000
Construction in progress	16,602,000	11,585,000
Less accumulated depreciation and amortization	(816,157,000)	(768,323,000)
	372,781,000	369,135,000
	$1,788,896,000	$1,746,314,000

See notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1975	December 31, 1974
CURRENT LIABILITIES:		
Notes payable to banks	$ 5,690,000	$ 4,000,000
Accounts payable	381,682,000	413,285,000
Salaries and wages, taxes and other accrued expenses	157,459,000	163,767,000
Federal taxes on income	36,400,000	15,829,000
Current portion of long-term debt	16,244,000	15,427,000
Total Current Liabilities	597,475,000	612,308,000
DEFERRED TAXES ON INCOME	22,000,000	7,000,000
DEFERRED INVESTMENT CREDIT	26,300,000	23,000,000
LONG-TERM DEBT, less current portion	133,028,000	149,039,000
CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY:		
Capital stock—		
Common, par value $5 a share:		
Authorized, 40,000,000 shares		
Issued at stated value—21,688,888 shares	446,672,000	447,158,000
Retained earnings	571,944,000	516,788,000
	1,018,616,000	963,946,000
Less treasury stock, at cost—		
1975—491,172 shares; 1974—517,400 shares	(8,523,000)	(8,979,000)
	1,010,093,000	954,967,000
	$1,788,896,000	$1,746,314,000

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31, 1975	1974
SOURCES OF FUNDS:		
From operations—		
Net earnings	$ 76,347,000	$ 72,432,000
Depreciation:		
Plant and equipment	67,197,000	64,478,000
Leased aircraft	11,037,000	6,129,000
Amortization of investment credit	(9,700,000)	(9,100,000)
Deferred Federal taxes on income	15,000,000	17,000,000
Total from operations	159,881,000	150,939,000
Decrease in aircraft financing—		
Long-term notes receivable	55,922,000	5,290,000
Leased aircraft	(41,916,000)	
Increase in deferred investment credit	13,000,000	7,000,000
Disposition (acquisition) of treasury stock	456,000	(1,689,000)
	187,343,000	161,540,000
USES OF FUNDS:		
Decreases in long-term debt	16,011,000	15,810,000
Additions to plant and equipment, net	70,843,000	84,129,000
Cash dividends	21,191,000	15,898,000
Other	3,726,000	7,437,000
	111,771,000	123,274,000
NET INCREASE IN WORKING CAPITAL	$ 75,572,000	$ 38,266,000
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Cash and short-term investments	$ 69,095,000	$ (12,022,000)
Receivables	(21,516,000)	57,721,000
Inventories	14,631,000	7,878,000
Prepaid expenses	(1,471,000)	4,009,000
Notes payable to banks	(1,690,000)	(600,000)
Accounts payable	31,603,000	(98,170,000)
Salaries and wages, taxes and other accrued expenses	(14,263,000)	(14,849,000)
Current portion of long-term debt	(817,000)	94,299,000
NET INCREASE IN WORKING CAPITAL	$ 75,572,000	$ 38,266,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1975 and 1974

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of all significant subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

INVENTORIES. Inventoried costs on long-term commercial programs and U.S. Government contracts include direct engineering, production, and tooling costs and applicable overhead. In addition, for U.S. Government fixed-price incentive contracts, inventoried costs include research, development, general and administrative expenses estimated to be recoverable. Inventoried costs are reduced by the estimated average cost of deliveries.

For mature commercial programs, the average cost of deliveries is based on the estimated total cost of units committed to production. For commercial programs in the early production stages, the average cost of deliveries is based on the estimated total cost of units representing a conservative market projection. For U.S. Government contracts the average cost of deliveries is based on the estimated total cost of units under contract.

To the extent the total costs as determined above are expected to exceed the total estimated sales price, charges are made to current earnings to reduce inventoried costs to estimated realizable value.

In accordance with industry practice, inventoried costs include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year.

Commercial spare parts and general stock materials are stated at average cost not in excess of realizable value.

REVENUE RECOGNITION. Sales under commercial programs and U.S. Government fixed-price and fixed-price incentive contracts are recorded as deliveries are made. Sales under cost-reimbursement type contracts are recorded as costs are incurred and fees are earned. Certain U.S. Government contracts contain profit incentives based upon performance as compared to predetermined targets. Incentives based on cost are recorded currently. Other incentives are included in revenues when awards or penalties are established, or when amounts can reasonably be determined. Aircraft leases are accounted for on the operating method.

DEPRECIATION AND AMORTIZATION. Property, plant and equipment and leased aircraft are recorded at cost and depreciated or amortized over useful lives based principally on accelerated methods.

RETIREMENT PLANS. The Company has several retirement plans covering substantially all employees. The Company's policy is to accrue and fund current pension costs. Unfunded past service costs are amortized over 25 years.

RESEARCH, DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES. Research, development, general and administrative expenses are charged directly to earnings as incurred except to the extent estimated to be recoverable under contracts.

FEDERAL TAXES ON INCOME. The provision for Federal income taxes is based on all elements of income and expense included in the statement of net earnings, regardless of the period when such items are reported for tax purposes, except that no provision is made for that portion of the earnings of the Company's Domestic International Sales Corporations for which management believes tax payments will be indefinitely deferred. The effects of timing differences between the reporting of revenues and expenses for financial statements and Federal income tax purposes are reflected as changes in deferred taxes on income. Investment tax credits are deferred and recorded as reductions in the provision for income taxes over the lives of the applicable assets.

Note 2 – ACCOUNTS AND NOTES RECEIVABLE:

Accounts receivable at December 31 consist of—

	1975	*1974*
	(in thousands)	
Amounts receivable under U.S. Government contracts	$ 95,417	$127,740
Accounts receivable from commercial customers	120,072	110,071
	$215,489	$237,811

No significant amounts are included in accounts receivable which represent retainages under contracts, amounts subject to future negotiations, accrued costs and profits not billable, or amounts which will not be collected within one year.

Principal payments receivable under long-term notes from commercial customers for the next five years are—

	(in thousands)
1976	$63,283
1977	73,482
1978	46,336
1979	26,637
1980	15,791

The notes bear interest at rates of 5% to 12%.

Note 3 – INVENTORIES:

Inventories at December 31 include the following—

	1975	1974
	(in thousands)	
Inventoried costs relating to long-term commercial programs and U.S. Government contracts, less estimated average cost of deliveries	$1,332,080	$1,330,211
Commercial spare parts and general stock materials	146,342	109,927
	1,478,422	1,440,138
Less advances and progress payments	(700,682)	(677,029)
	$ 777,740	$ 763,109

Inventoried costs relating to long-term U.S. Government contracts include general and administrative expenses of approximately $12,500,000 in 1975 and $11,300,000 in 1974.

Inventoried costs relating to long-term commercial programs and U.S. Government contracts include $179,000,000 in 1975 and $198,000,000 in 1974 of unamortized tooling costs and $196,000,000 in 1975 and $229,000,000 in 1974 representing the excess of aggregate production costs incurred on in-process and delivered units over the aggregate estimated average cost of such units (determined as described in Note 1). It is estimated that $262,000,000 of such amounts, which relate principally to the 747 program, will be recovered from firm orders received after March 1, 1976. With respect to the 747 program, such costs are being averaged over what management believes to be a conservative market projection of 400 aircraft. As of March 1, 1976, the Company had received 301 firm orders for 747 aircraft of which 268 had been delivered at December 31, 1975.

Note 4 – FEDERAL INCOME TAXES:

The provision for Federal taxes on income consists of—

	1975	1974
	(in thousands)	
Taxes currently payable	$31,100	$22,100
Deferred tax expense	15,000	17,000
Amortization of investment tax credit	(9,700)	(9,100)
	$36,400	$30,000

The provision for Federal taxes on income was reduced by $8,500,000 ($.40 a share) in 1975 and $10,000,000 ($.47 a share) in 1974 applicable to earnings of the Company's Domestic International Sales Corporation (DISC) subsidiaries, since management intends to postpone indefinitely payment of such taxes through the reinvestment of undistributed earnings in export-related assets. Cumulative undistributed DISC earnings for which Federal income taxes have not been provided amount to approximately $68,500,000.

Deferred tax expense results from—

	1975	1974
	(in thousands)	
Deferred DISC earnings not indefinitely postponed	$19,200	$24,300
Installment sales	(4,600)	(1,900)
Commercial and U.S. Government program costs	(3,000)	(1,000)
Leased aircraft depreciation	3,200	(4,600)
Other	200	200
	$15,000	$17,000

The provision for Federal taxes on income is less than that which results from application of the statutory corporate tax rate because such provision has been reduced by $8,500,000 in 1975 and $10,000,000 in 1974 related to undistributed DISC earnings and by $9,700,000 in 1975 and $9,100,000 in 1974 of investment tax credit amortization.

Income taxes have been settled with the Internal Revenue Service for all years through 1972. Adequate provision for income taxes is believed to have been made for the years 1973 through 1975.

Note 5 – NOTES PAYABLE AND LONG-TERM DEBT:

Short-term notes of $5,690,000 at December 31, 1975, bearing interest at rates ranging to ¼% above the Canadian commercial bank prime rates are payable by Canadian subsidiaries under lines of credit aggregating $6,100,000. No borrowings were outstanding at December 31, 1975 under agreements with a group of U.S. banks which provide formal lines of credit of $100,000,000 and open lines of credit of $100,000,000 bearing interest at the commercial bank prime rate. Commitment fees of ½% are charged on the unused portion of the formal line of credit. Cash balances are maintained under informal compensating balance arrangements in connection with the lines of credit. No restrictions are imposed on the use of these funds.

Boeing Financial Corporation, a wholly-owned subsidiary, is a party to a Term Loan and Credit Agreement with a group of banks providing $50,000,000 of financing under a revolving credit agreement governed by a borrowing base. This agreement, under which no borrowings are outstanding, provides for interest at 120% of the commercial bank prime rate.

Long-term debt consists of the following—

	December 31,	
	1975	1974
	(in thousands)	
6⅜% notes payable	$121,250	$132,000
5% notes payable	22,500	25,250
5% Sinking Fund Debentures	4,837	6,664
Other notes	685	552
Less current maturities	(16,244)	(15,427)
	$133,028	$149,039

The 6⅜% notes, maturing in 1986, are payable to a group of institutional lenders. Required annual payments are $10,750,000.

The 5% notes, maturing in 1983, are payable to an insurance company in annual installments of $2,750,000.

Sinking fund requirements under the 5% Sinking Fund Debentures, due August 1, 1978, are $2,700,000 annually. Debentures aggregating $63,000 have been reacquired and may be applied against future sinking fund requirements.

The other notes bear interest at 5% to 9¾% and are payable in installments over various periods through 1980.

The Company has complied with the restrictive covenants contained in the various debt agreements. Retained earnings totaling $89,290,000 are free from dividend restrictions.

Aggregate maturities and sinking fund requirements on long-term debt for each of the next five years are as follows—

	(in thousands)
1976	$16,244
1977	16,175
1978	13,530
1979	13,501
1980	13,572

Note 6 – RETIREMENT PLANS:

Costs and expenses for 1975 and 1974 include retirement plan costs of $67,938,000 and $43,338,000. At December 31, 1975, actuarially determined vested benefits exceeded retirement plan assets by approximately $157,000,000.

Note 7 – RESEARCH, DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES:

Expenses charged directly to earnings as incurred include—

	1975	*1974*
	(in thousands)	
Research and development	$188,059	$178,472
General and administrative	116,863	110,505

Note 8 – CAPITAL STOCK:

During 1974, the Company authorized an additional 10,000,000 shares of $5 par common stock and 10,000,000 shares of $1 par preferred stock, none of which has been issued.

During 1975, the Company received an unfavorable court decision related to adequacy of the notice of the 1966 call of Convertible Subordinated Debentures. The stated value of capital stock has been reduced in 1975 by $552,000, which represents management's estimate of the established liability to debenture holders. Various issues remain in contention, and the final judgment may require an adjustment of the estimated liability.

The Company reacquired 125,000 shares of common stock in 1974. During 1975, 26,228 treasury shares ($456,000) were reissued for the exercise of stock options resulting in an increase in the stated value of capital stock of $66,000. There were no other changes in common stock outstanding during the two years ended December 31, 1975.

At December 31, 1975, options for 371,178 shares of the Company's stock at prices ranging from $13.25 to $23.00 were outstanding, of which 135,491 shares were exercisable. During 1975, options for 2,500 shares were granted and options for 141,544 shares were cancelled. Additional options for 249,844 shares are available for grant under the present stock option plans.

Note 9 – CONTINGENT LIABILITIES:

Substantially all of the Company's contracts with the U.S. Government are subject to renegotiation under the Renegotiation Act of 1951. Renegotiation Board proceedings for all years through 1971 have been concluded. The Company does not know and cannot predict what the Board's actions will be for 1972 and subsequent years. In view of this uncertainty, and the belief of the Company that no excessive profits were realized, no provision for renegotiation refund has been made for these years.

The Company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

ACCOUNTANTS' REPORT

TOUCHE ROSS & CO.

Board of Directors
The Boeing Company
Seattle, Washington

We have examined the consolidated balance sheet of The Boeing Company and subsidiaries as of December 31, 1975 and 1974, and the related statements of net earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Boeing Company and subsidiaries at December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Also, in our opinion, the action of the Board of Directors on March 1, 1976, in setting aside the sum of $3,000,000 for the year 1975 under the Incentive Compensation Plan for officers and employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

THE FINANCIAL CENTER
SEATTLE, WASHINGTON 98161
March 1, 1976

Touche Ross & Co

Certified Public Accountants

FIVE-YEAR COMPARATIVE FINANCIAL DATA

Dollars in millions except per share amounts

SUMMARY OF OPERATIONS

	Year ended December 31,				
	1975	*1974*	*1973*	*1972*	*1971*
Sales	$3,718.9	$3,730.7	$3,335.2	$2,369.6	$3,039.8
Other income	50.8	47.3	43.8	39.4	43.2
	3,769.7	3,778.0	3,379.0	2,409.0	3,083.0
Costs and expenses	3,642.4	3,660.3	3,282.0	2,327.8	3,014.3
Interest and debt expense	14.6	15.3	39.2	56.4	56.5
	3,657.0	3,675.6	3,321.2	2,384.2	3,070.8
Earnings before taxes and extraordinary item	112.7	102.4	57.8	24.8	12.2
Federal taxes on income	36.4	30.0	6.6	(5.6)	(10.2)
Earnings before extraordinary item	76.3	72.4	51.2	30.4	22.4
Recovery of cost share resulting from SST cancellation, net of Federal income taxes of $18.3					19.8
Net earnings	$ 76.3	$ 72.4	$ 51.2	$ 30.4	$ 42.2
Average number of common shares outstanding	21,190,125	21,187,605	21,513,521	21,685,076	21,683,102
Earnings per share:					
Before extraordinary item	$3.60	$3.42	$2.38	$1.40	$1.04
Extraordinary item					.91
Net earnings	$3.60	$3.42	$2.38	$1.40	$1.95
Cash dividends paid per share	$1.00	$ .75	$ .40	$ .40	$ .40

MANAGEMENT DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Management's discussion and analysis of 1975 results compared with 1974 is set forth in the Financial Review section of this report under Sales, Earnings and Dividends, pages 18 to 20. Management's comments relative to 1974 results compared with 1973 are summarized as follows:

Sales in 1974 were approximately 12% above the 1973 level, primarily attributable to increased jet transport deliveries and higher military aircraft sales under the E-3A (AWACS) and Airborne Navigator Trainer programs. Missile/space sales declined in total as increased Minuteman sales were more than offset by a decrease in SRAM deliveries and the continued decline in space activities. Research and development expenses, and general and administrative expenses charged directly to earnings in 1974 were respectively $49.8 million and $19.9 million higher than in 1973. However, continued favorable performance on major programs coupled with a $23.8 million decrease in interest and debt expense and a $3.5 million increase in other income, resulted in a significant improvement in 1974 earnings.

The 1974 provision for Federal taxes on income increased $23.4 million over 1973 due to the tax effect of increased earnings plus the net effect of a $2.4 million decrease in amortization of previously deferred investment tax credits and a $0.3 million increase in tax benefits from the company's domestic international sales corporations.

FINANCIAL POSITION AT YEAR END

	1975	1974	1973	1972	1971
Working capital	$ 577.7	$ 502.1	$ 463.8	$ 738.6	$ 694.8
Long-term notes receivable	181.6	237.5	242.8	251.3	247.8
Leased aircraft, net	43.1	12.2	18.3	26.0	36.1
Facilities—at cost	1,188.9	1,137.5	1,067.5	1,059.2	1,077.3
Facilities—net	372.8	369.1	349.5	382.4	448.9
Long-term debt	133.0	149.0	164.8	502.6	527.6
Deferred taxes	22.0	7.0	(10.0)	2.0	17.0
Deferred investment credit	26.3	23.0	25.1	33.1	44.4
Stockholders' equity	1,010.1	955.0	900.1	864.8	843.0
—per share	$ 47.65	$ 45.11	$ 42.27	$ 39.87	$ 38.88
Common shares outstanding	21,197,716	21,171,488	21,296,488	21,688,888	21,683,102

PRINCIPAL SOURCES AND (USES) OF FUNDS

Net earnings	$ 76.3	$ 72.4	$ 51.2	$ 30.4	$ 42.2
Depreciation of plant	67.2	64.5	66.0	75.9	89.6
Capital stock	0.5	(1.7)	(7.3)	0.1	
Long-term debt and deferred items	2.3	(0.9)	(357.8)	(51.2)	(110.8)
Cash dividends	(21.2)	(15.9)	(8.6)	(8.7)	(8.7)
Plant additions, net	(70.8)	(84.1)	(33.1)	(9.4)	(6.4)
Aircraft financing	25.0	11.4	16.1	6.7	32.3
Other	(3.7)	(7.4)	(1.2)	(0.1)	
Increase (decrease) in working capital	$ 75.6	$ 38.3	$ (274.7)	$ 43.7	$ 38.2

OTHER DATA

Firm backlog	$3,728.8	$3,824.4	$3,152.2	$2,830.9	$2,200.7
Salaries and wages	$1,222.4	$1,099.0	$ 955.5	$ 783.5	$ 711.0
Average number of employees	72,600	74,400	68,200	58,600	56,300
Floor area (million square feet)					
Boeing owned	25.0	25.2	23.7	24.2	24.6
Leased	2.5	2.3	1.5	1.6	1.6
Government owned	5.7	5.8	5.9	7.4	7.9

ORGANIZATION and MANAGEMENT

THE BOEING COMPANY
Seattle, Washington

BOARD OF DIRECTORS

T. A. WILSON
Chairman of the Board
Chief Executive Officer

M. T. STAMPER
President

H. W. HAYNES
Executive Vice President
Chief Financial Officer

J. E. PRINCE
Senior Vice President
Secretary

WILLIAM M. BATTEN*
Director and former Chairman of the Board
J. C. Penney Company, Inc. (Department Stores)

HAROLD J. HAYNES*
Chairman of the Board
Standard Oil Company of California
(Petroleum Products)

CHARLES M. PIGOTT
President
PACCAR Inc (Transportation Equipment)

WILLIAM G. REED
Managing Partner
Simpson Reed & Co. (Management of Capital)

DAVID E. SKINNER*
President
Skinner Corporation (Diversified Investments)

EDWARD C. WELLS
Boeing Company Consultant

GEORGE H. WEYERHAEUSER*
President
Weyerhaeuser Company (Forest Products)

**Audit Committee*

DIRECTORS EMERITI:

WILLIAM M. ALLEN *(Chairman Emeritus)*

CRAWFORD H. GREENEWALT • LOWELL P. MICKELWAIT

CORPORATE OFFICES

T. A. WILSON

M. T. STAMPER

H. W. HAYNES

J. E. PRINCE

O. C. BOILEAU
Vice President; President
Boeing Aerospace Company

E. H. BOULLIOUN
Vice President; President
Boeing Commercial Airplane Company

W. L. HAMILTON
Vice President
International Business

V. F. KNUTZEN
Vice President
Controller

S. M. LITTLE
Vice President
Industrial and Public Relations

W. M. MAULDEN
Senior Vice President
Corporate Operations

H. W. NEFFNER
Vice President
Contracts

J. B. L. PIERCE
Treasurer

G. S. SCHAIRER
Vice President
Research

H. N. STUVERUDE
Vice President; President
Boeing Vertol Company

R. W. TAYLOR
Vice President
Washington, D.C. Office

R. W. THARRINGTON
Vice President; President
Boeing Computer Services, Inc.

BOEING AEROSPACE COMPANY

Kent, Washington

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President

L. D. ALFORD
Vice President
General Manager—Missiles and Space Group

D. A. COLE
Vice President
General Manager—Aerospace Operations

A. M. S. GOO
Vice President
Manager—B-1 Avionics Program

D. E. GRAVES
Vice President
Manager—Military Applications

W. T. HAMILTON
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Manager—New Military Transport Programs

H. E. HURST
Vice President, Operations—Boeing Military Airplane Development

J. C. MAXWELL
Vice President, General Manager—Boeing Military Airplane Development

M. K. MILLER
Vice President
General Manager—Information Systems Division

B. T. PLYMALE
Vice President
Manager—Product Development

G. S. SEBESTYEN
Vice President, General Manager—Research and Engineering Division

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Philadelphia, Pennsylvania

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President

G. D. NIBLE
Executive Vice President

C. W. ELLIS
Vice President
Assistant General Manager

WICHITA DIVISION

Wichita, Kansas

O. H. SMITH
Vice President
General Manager

BOEING ENGINEERING and CONSTRUCTION

Kent, Washington

BOECON Corporation
Boeing Environmental Products, Inc.

H. K. HEBELER
Vice President
General Manager

BOEING COMMERCIAL AIRPLANE CO.

Renton, Washington

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President

R. W. WELCH
Executive Vice President

W. W. BUCKLEY
Vice President
General Manager—707/727/737 Division

K. F. HOLTBY
Vice President
General Manager—747 Division

E. A. OCHEL
Vice President

J. E. STEINER
Vice President, Technology and New Program Development

J. F. SUTTER
Vice President
Program Operations

D. D. THORNTON
Vice President, Finance, Contracts, and International Operations

D. D. WHITFORD
Vice President
General Manager—Fabrication Division

C. F. WILDE
Vice President
Sales and Marketing

H. W. WITHINGTON
Vice President
Engineering

B. S. WYGLE
Vice President
Customer Support

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General Manager

BOEING COMPUTER SERVICES, INC.

Dover, New Jersey and Kent, Washington

R. W. THARRINGTON
President

J. H. GOLDIE
Executive Vice President

B. M. WHEAT
Senior Vice President

BOEING MARINE SYSTEMS

Renton, Washington

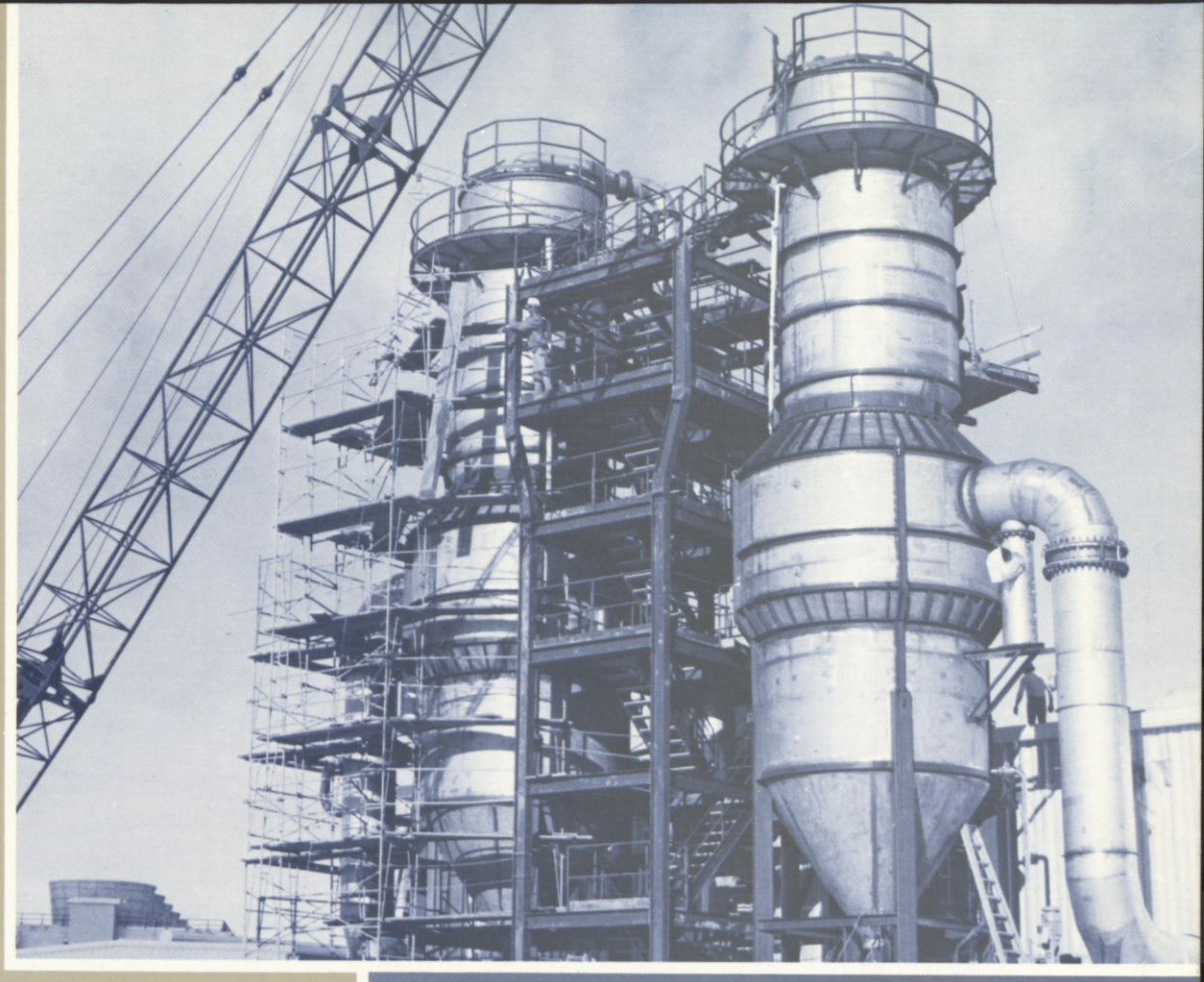
R. E. BATEMAN
Vice President
General Manager

■ 747SP, shorter derivative of basic 747, is to enter scheduled service early in 1976. Flight testing was completed during 1975.

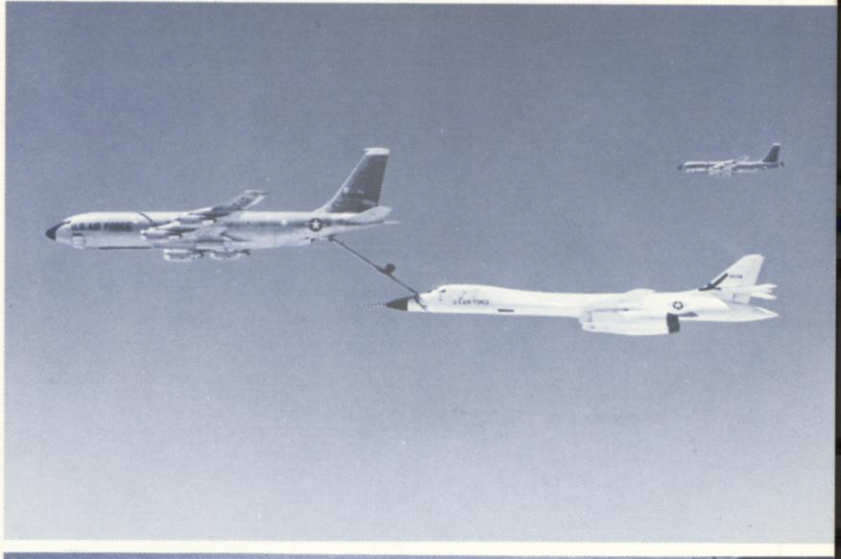
GENERAL COUNSEL	PERKINS, COIE, STONE, OLSEN & WILLIAMS
GENERAL AUDITORS	TOUCHE ROSS & CO.
TRANSFER AGENT	CITIBANK, N.A., NEW YORK
REGISTRAR	CITIBANK, N.A., NEW YORK

THE BOEING COMPANY

GENERAL OFFICES — 7755 EAST MARGINAL WAY SOUTH — SEATTLE, WASHINGTON 98124



■ Above: This twin-module Brine Concentrator can remove impurities from 500,000 gallons of water per day. It will purify polluted water and return over 95% for re-use in this electric power station application.



■ Air Force's new B-1 bomber is being refueled by Boeing-built KC-135 tanker; the company is responsible for integration of the avionics systems on B-1.

■ Boeing-built B-52 bomber arrived in Seattle to receive the first of seven Air Launched Cruise Missiles scheduled for flight testing over the White Sands Missile Range in 1976.

THE BOEING COMPANY

CITIBANK, N.A., TRANSFER AGENT
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